

Rural Water District No. 1, Pottawatomie County, Kansas

**Financial Statement
As of December 31, 2020
and For the Year Then Ended**

With Report by Independent Auditors



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To the Board of Directors of
Rural Water District No. 1 Pottawatomie County, Kansas
Wamego, Kansas

April 16, 2021

Independent Auditor's Report

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Rural Water District, No. 1, Pottawatomie County, Kansas (the District), as of and for the year ended December 31, 2020 and the related notes to the financial statement.

Management's Responsibility

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* (KMAAG) as described in Note 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and KMAAG. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the District to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of KMAAG, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between regulatory basis of accounting described in Note 1 and the accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the previous paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2020, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the District as of December 31, 2020, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Regulatory-Required Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the summary statement of receipts, expenditures, and unencumbered cash - regulatory basis (basic financial statement) as a whole. Schedule 1 – Regulatory Basis Receipts and Expenditures – Actual is presented for additional analysis and is not a required part of the basic financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

Another auditor previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statement of the District as of and for the year ended December 31, 2019 (not presented herein), and issued their report thereon dated February 27, 2020, which contained an unmodified opinion on the basic financial statement. The 2019 basic financial statement and their accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration at the following link <https://admin.ks.gov/offices/oar/municipal-services>. The 2019 actual column (2019 comparative information) presented in the individual fund schedule of regulatory basis receipts and expenditures for the year ended December 31, 2020 (Schedule 1 as listed in the table of contents) is presented for purposes of additional analysis and is not a required part of the 2020 basic financial statement. Such 2019 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2019 basic financial statement. The 2019 comparative information was subjected to the auditing procedures applied in the audit of the 2019 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2019 basic financial statement or to the 2019 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2019 comparative information is fairly stated in all material respects in relation to the basic financial statement as a whole for the year ended December 31, 2019, on the basis of accounting described in Note 1.

Kientz & Penick, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas

Rural Water District No. 1
Pottawatomie County, Kansas

Summary Statement of Receipts, Expenditures and Unencumbered Cash
Statement 1 - Regulatory Basis
As of December 31, 2020

Fund	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Business Type Funds						
Water Utility Fund	\$ 5,238,044	\$ 2,678,216	\$ 2,011,214	\$ 5,905,046	\$ 117,782	\$ 6,022,828
Composition of Ending Cash Balance						
						\$ 250
						1,834,326
						3,369,434
						818,818
						\$ 6,022,828

Note 1: Summary of Significant Accounting Policies

Municipal Financial Reporting Entity

Rural Water District No. 1, Pottawatomie County, Kansas (the District) was incorporated and organized on September 11, 1972 under K.S.A. 82a-613 et. seq. to provide water to areas of Pottawatomie County adjacent to Wamego, Kansas. The District is a Kansas municipality and is exempt from federal and state income taxes.

The District is a quasi-municipal corporation governed by an elected nine-member council and provides water to over 3,000 members of rural Pottawatomie County, Kansas. All water sales are made to residents in the District. Accordingly, the District's operations are dependent upon the economic conditions of the area.

Regulatory Basis Fund Type

Business Fund - funds financed in whole or in part by fees charged to users of the goods or services (i.e., water fund, electric fund, etc.).

Regulatory Basis of Accounting

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of U.S. GAAP and allowing the District to instead use the regulatory basis of accounting as prescribed and published in the Kansas Municipal Audit and Accounting Guide (KMAAG).

This KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance for each fund. The regulatory basis also involves the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis receipts and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. This basis of accounting does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

Budgetary Information

Kansas statutes do not require the District to adopt a budget.

Deposits and Investments

Deposits and investments include an operating checking account, certificates of deposit, and CDARS. Kansas statutes permit investment in savings accounts, certificates of deposit, and, in certain cases, obligations of the U.S. Treasury.

Note 2: Deposits and Investments

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposits with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices. Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Note 2: Deposits and Investments (Continued)

Concentration of credit risk

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District does not have any "peak periods" designated.

On December 31, 2020, the District's carrying amount of deposits was \$6,022,578 and the bank balance was \$6,145,510. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, \$250,000 was covered by federal depository insurance, \$3,369,434 was secured through participation in CDARS, \$2,020,175 was secured by pledged securities and the remaining bank balance of \$505,901 was unsecured.

Note 3: Stewardship, Compliance and Accountability

Compliance with Kansas Statutes

Management is not aware of any statutory violation incurred in the year ended December 31, 2020.

Note 4: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The District manages these risks of loss through the purchase of various insurance policies.

Note 5: Benefit Units

Members of the District are required to pay a fee for each benefit unit prior to connecting to the District's lines. New benefit units added during the year totaled \$586,100.

Note 6: Related Parties

All the members of the Board of Directors are District customers. For all board members the only material transactions were water purchases made on the same terms as all other District customers. All were current at year end.

Note 7: Date of Management Review

Management has performed an analysis of the activities and transactions subsequent to December 31, 2020, to determine the need for any adjustments to and/or disclosures within the audited financial statement. Management has performed their analysis through April 16, 2021, which is the date at which the financial statement was available to be issued.

REGULATORY-REQUIRED SUPPLEMENTARY INFORMATION

Rural Water District No. 1
Pottawatomie County, Kansas

Water Utility Fund
Receipts and Expenditures – Actual
Schedule 1 – Regulatory Basis
For the Years Ended December 31,

	2020	2019
Cash Receipts		
Water sales	\$ 1,783,916	\$ 1,581,221
Late charges	13,743	18,695
Interest income	107,315	79,334
Other charges	27,865	27,055
Member contributions	586,100	312,700
Miscellaneous income	18,067	15,469
Installs	141,210	125,078
Total Cash Receipts	2,678,216	2,159,552
Expenditures		
Salaries	260,109	192,371
Payroll expense	19,908	14,542
Repairs and facility maintenance	122,720	82,137
Utilities	103,623	83,721
Water purchases	470,834	385,355
Insurance	36,536	31,289
Employee benefits	37,362	29,640
Vehicle expense	10,426	9,062
Miscellaneous	8,181	3,545
Water protection and sampling fees	18,093	11,431
Equipment and supplies	170,451	102,619
Director's expense	12,050	4,736
Travel and education	7,934	781
Engineering fees	12,763	13,527
Dues and subscriptions	1,170	1,560
Professional services	6,847	7,637
Capital outlay	672,325	2,432,944
Office	39,882	27,698
Total Expenditures	2,011,214	3,434,595
Cash Receipts Over (Under) Expenditures	667,002	(1,275,043)
Unencumbered Cash Balance – Beginning	5,238,044	6,513,087
Unencumbered Cash Balance – Ending	\$ 5,905,046	\$ 5,238,044